

STATE OF ARIZONA

Department of Revenue



Janet Napolitano
Governor

Gale Garriott
Director

September 9, 2008

The Arizona Department of Revenue has proposed the following tax procedures and ruling on various forms of guidance issued by the Department, including private taxpayer rulings and taxpayer information rulings. Once promulgated, these documents will supersede and rescind *Arizona General Tax Procedures* GTP 07-1 and GTP 07-2 and *Arizona General Tax Ruling* GTR 07-1. In an ongoing effort to interact with and inform the public regarding issues relating to taxation, the Department would appreciate your comments on these proposed documents. If applicable, please forward this notice to divisions or members of your organization to whom the procedures and ruling will apply.

Attached please find a draft of the proposed documents for your review and comment. Please be advised that the deadline for comments is **Friday, October 10, 2008**. Any request for an extension of time for review must also be made by this date. This office will review all comments that are received through this date and make revisions as deemed appropriate before proceeding with the formal rulemaking process.

Please address your comments to:

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Thank you for your continuing efforts in establishing an ongoing line of communication with the Department of Revenue.

Sincerely,

Hsin Pai
Tax Analyst
Tax Research & Analysis

Attachments



ARIZONA GENERAL TAX PROCEDURE GTP 08-__

Janet Napolitano
Governor

Issuance of Private Taxpayer Rulings and Taxpayer Information Rulings

Gale Garriott
Director

(This procedure supersedes and rescinds GTP 07-1)

In 1991, the Legislature adopted a statutory provision, currently found at Arizona Revised Statutes ("A.R.S.") § 42-2101, authorizing the Department of Revenue (the "Department") to issue *private taxpayer rulings* ("PTRs")—often referred to as "letter rulings"—to provide Arizona taxpayers with guidance relating to specific tax situations. This legislation was intended to assist a requesting taxpayer in making determinations on the taxability of unusual or complex transactions and thereby offer some protection from possible assessment at a later date. In 1994, the Legislature amended the statute to provide additional information about PTRs to taxpayers.

Effective September 26, 2008, the Legislature again amended A.R.S. § 42-2101 to authorize a second form of specific taxpayer guidance called *taxpayer information rulings* ("TIRs"). TIRs were created for taxpayers whose unique facts and circumstances had heretofore disinclined them to request PTRs because they had to reveal their identities when submitting the requests to the Department. Whether requesting taxpayers receive protection from TIRs depends on whether they opt to fully disclose their identities to the Department upon issuance of the rulings.

The Department issues this procedure to explain some of the basic principles of and answer frequently asked questions about the issuance of PTRs and TIRs. Additionally, this procedure discusses the reliance that may be placed on PTRs and TIRs by taxpayers and the Department and circumstances under which the Department will not issue these rulings.

GENERAL INFORMATION:

A PTR or TIR is a written statement issued to a taxpayer or the taxpayer representative by the Tax Research and Analysis Section of the Department's Tax Policy and Research Division. The Department will issue a PTR or TIR only in response to a written inquiry by a taxpayer, a potential taxpayer, or an authorized representative of a taxpayer or potential taxpayer. A PTR or TIR interprets and applies Arizona tax laws to a particular set of facts.

A PTR or TIR:

1. Provides a taxpayer with guidance through a specific tax determination that is based on the taxpayer's specific fact situation.

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2. Is issued for a particular set of stated facts and circumstances. Neither a PTR nor a TIR applies to different fact situations of the requesting taxpayer.
3. May not be relied upon by a taxpayer other than the taxpayer to whom the Department issued the PTR or TIR.
4. May be revoked or modified by the Department if there is either a change or clarification in the law that applied at the time the ruling was issued (e.g., changes or clarifications caused by legislation, adopted administrative rules, or court decisions) or the Department issued erroneous advice in the ruling.
5. May be unpublished at the Department's discretion (see additional discussion in the "PROCEDURE FOR REQUESTING A PTR OR TIR" section below).

PTRs and TIRs that the Department publishes are open to public inspection only after the Department removes all information that could identify the taxpayers and any other parties involved in the activities or transactions covered. The Department will also redact any other information that would permit a person generally knowledgeable of the appropriate community to identify any party to the transaction. The "appropriate community" is the group of persons who would be able to identify a particular person from the information provided regarding the transactions that are the subject of a ruling.

The appropriate community will necessarily vary according to the nature of the transaction. For example, if the transaction involves the purchase and installation of machinery or equipment that is particular to a certain industry, the appropriate community may include all persons engaged in business in that industry.

6. Is issued only if no tax has accrued with respect to the transactions, events, or facts contained in the PTR or TIR request. Although the Department may issue a PTR or TIR that addresses a taxpayer's ongoing business activities, the ruling applies only to transactions that occur or tax liabilities that accrue from and after the date the taxpayer receives the ruling. The audit process will normally resolve issues relating to transactions that a taxpayer has already reported.

While the Department will issue a PTR or TIR for prospective transactions that may occur, it will not issue either ruling for abstract or hypothetical situations.

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PTRs and TIRs differ in the following ways:

Provision of Taxpayer Identifying Information

1. *For PTRs:* All requests for PTRs must provide the name, address, and, if applicable, taxpayer identifying number of the taxpayer or potential taxpayer requesting the ruling.
2. *For TIRs:* At the time of submitting a request for a TIR on behalf of a client, a taxpayer representative can withhold the name, address, and taxpayer identifying number of the client. The Department will consider any request for a PTR that withholds such identifying information but is otherwise properly submitted pursuant to A.R.S. § 42-2101 and this procedure a request for a TIR.

Assessment of Taxes, Penalties, or Interest

1. *For PTRs:* The Department will not assess taxes, penalties, or interest attributable to erroneous advice it provided in a PTR if the taxpayer provided accurate and adequate information in its request and the taxpayer shows reasonable reliance on the ruling.

If the taxpayer provided accurate and adequate information and reasonably relied on the PTR, the revocation or modification of a PTR will not be applied retroactively to tax periods or tax years before the effective date of the revocation or modification. If the Department revokes or modifies a PTR, the taxpayer or potential taxpayer will be notified by mail sent to the last known address of the taxpayer or potential taxpayer contained in the original ruling request or subsequent related correspondence.

2. *For TIRs:* The Department will not assess taxes, penalties, or interest attributable to erroneous advice it provided in a TIR if the taxpayer or potential taxpayer:
 - a. Provided accurate and adequate information in the request;
 - b. Shows reasonable reliance on the ruling; and
 - c. Provided its name, address, identifying number (if applicable), and taxpayer representative authorization pursuant to A.R.S. § 42-2003(A)(1) before the date the Department publishes the TIR, as specified by the Department upon issuance of the ruling, or if not

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published, before the date specified by the Department on issuing the TIR.

If the Department is not provided with this taxpayer identifying information and representative authorization before the proposed publication date (for a published TIR) or date specified by the Department (for an unpublished TIR), the TIR is not binding on the Department for the purposes of abating taxes, penalties, or interest.

Means of Revocation or Modification

1. *For PTRs:* The Department can revoke or modify a PTR by providing written notice to the last known address of the taxpayer or potential taxpayer.
2. *For TIRs:* If a taxpayer representative has provided taxpayer identifying information to the Department, the Department can revoke or modify a TIR by providing written notice to the last known address of the taxpayer or potential taxpayer. Otherwise, the Department can satisfy its obligation to provide actual written notice by sending it to the last known address of the taxpayer representative who requested the TIR.

Appeal of Retroactive Application of Revoked or Modified Rulings

1. *For PTRs:* A taxpayer may apply for an administrative hearing to determine the propriety of a retroactive application of a revoked or modified PTR by filing a written petition with the Department pursuant to A.R.S. § 42-1251 within 45 days after receiving written notice of the Department's intent to take such retroactive action.
2. *For TIRs:* A taxpayer has the appeal right described above for PTRs only if it has provided its name, address, identifying number (if applicable), and taxpayer representative authorization pursuant to A.R.S. § 42-2003(A)(1) before the proposed publication date (for a published TIR) or date specified by the Department (for an unpublished TIR).

PROCEDURE FOR REQUESTING A PTR OR TIR:

The Department requires that a request for a PTR or TIR be submitted in hard copy (*i.e.*, paper) format. Nevertheless, to assist the Department's efforts to issue responses in an efficient and expeditious manner, requestors are encouraged to also submit requests and subsequent related correspondence in electronic format. The Department prefers that the request and related correspondence addressed to the Department be sent in a rich text

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format (RTF) or Microsoft Word (.doc) file. Supplemental documents attached as exhibits or examples (e.g., contracts, deeds, diagrams, and photographs) may be submitted in alternate formats such as Adobe Portable Document Format (PDF) or JPEG.

The following steps outline the requirements for submitting a request for a PTR, providing alternate requirements for submitting a TIR request as applicable:

- 1a. The taxpayer, potential taxpayer, or taxpayer representative who submits a request must provide the taxpayer's name and taxpayer identification number with the signature of the taxpayer or the taxpayer's authorized representative. A request submitted by a taxpayer representative also must include proof that the representative is an authorized agent of the taxpayer and include an *individual* identification number unique to the representative. When using the General Disclosure/Representation Authorization Form (Arizona Form 285), an original or photocopied hard copy signed by the taxpayer must be submitted.

To constitute adequate proof that a taxpayer representative is an authorized agent of the taxpayer, the representative must demonstrate the authority to bind the taxpayer. Examples of such proof include the designation (e.g., on an Arizona Form 285) of the representative as an authorized agent by a principal officer or member of the taxpayer or a resolution of the managers or similar governing body. The taxpayer must similarly authorize any additional persons with whom the Department may discuss issues or convey information relating to a private taxpayer ruling request.

In Section 2 ("APPOINTEE INFORMATION") of Arizona Form 285, or within any alternate document evidencing proof of authorization, the taxpayer representative must provide one of four types of identification numbers: a state bar number, a Certified Public Accountant number, an Internal Revenue Service Enrolled Agent number, or a Social Security or "other identification number." As stated above, for any one of these categories, the identification number provided must be *unique to the individual taxpayer representative*. Examples of "other identification numbers" are a Preparer Tax Identification Number issued by the Internal Revenue Service, a Social Insurance Number held by a Canadian appointee, or a unique identification number that the representative may request from the Department's Taxpayer Information and Assistance Section.

For additional information regarding what individuals can serve as authorized taxpayer representatives in submitting private taxpayer ruling requests to the Department, refer to the "Who Can Request a PTR or TIR on Behalf of a Taxpayer" subsection below.

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- 1b. **ALTERNATE REQUIREMENT TO 1a FOR TIRs:** For TIR requests, taxpayer representatives are not required to disclose taxpayer identifying information to the Department at the time the request is submitted. Nevertheless, they must otherwise comply with Requirement 1a by providing proof that they can serve as authorized taxpayer representatives (see the "Who Can Request a PTR or TIR on Behalf of a Taxpayer" subsection below) and by signing the requests.

If, upon issuance of the TIR, the taxpayer representative's client desires to have the ruling be binding for the purposes of abating tax, penalties, and interest, the client must fully comply with Requirement 1a before the proposed publication date (for a published TIR) or date specified by the Department (for an unpublished TIR). If the client does not comply in this manner, the TIR is not binding on the Department for the purpose of abating interest, penalty or tax.

- 2a. A detailed description of the transaction, including the identification of all interested parties and a complete statement of facts relating to the transaction or series of transactions at issue in the ruling request. To the extent possible, the description should be provided in both hard-copy and electronic formats, as explained above.
- 2b. **ALTERNATE REQUIREMENT TO 2a FOR TIRs:** For a TIR request, the description may omit identification of the taxpayer representative's client but should still identify third parties involved in the transaction or series of transactions involved in the ruling request. The description should still be detailed and include a complete statement of facts. To the extent possible, the description should be provided in both hard-copy and electronic formats, as explained above.
3. True and legible copies of all contracts, wills, deeds, agreements, and other documents pertinent to the transaction. Requestors should not submit original documents because they become part of the Department's files and will not be returned. To the extent possible, copies should be provided in both hard-copy and electronic formats, as explained above.
4. An analysis of the material facts included in the documents and their bearing on the issue or issues included in the request. To the extent possible, the analysis should be provided in both hard-copy and electronic formats, as explained above.
5. A statement regarding whether the issue or related issues of the private taxpayer ruling request are subject to an existing audit, protest, appeal or

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litigation concerning the taxpayer or potential taxpayer in any jurisdiction, and if the taxpayer or potential taxpayer is submitting the request in the course of pursuing or entering into a voluntary disclosure agreement with the Department.

6. A statement regarding whether a request for a ruling on the identical issue or issues has been or will be submitted to another taxing authority within or outside of Arizona for a ruling.
7. If the requestor advocates a particular conclusion, an explanation of the grounds for the conclusion, including citations to relevant legal authorities in support of the conclusion. Relevant legal authorities may be controlling (e.g., Arizona and federal statutes and administrative regulations, Arizona and federal Ninth Circuit case law) or persuasive (e.g., treatises, statutes and regulations from other states), but should not be cited to if they have been reversed, repealed, overruled, or restricted, unless the requestor informs the Department of such limitations. To the extent possible, the explanation should be provided in both hard-copy and electronic formats, as explained above.

The Department realizes that some taxpayers may not have sufficient access to legal research references and tools to allow them to provide comprehensive support for conclusions. The Tax Research and Analysis Section reviews all requests for private taxpayer rulings on a case-by-case basis, and taxpayers should explain their particular circumstances in their requests if they are unable to provide relevant legal authorities.

8. If the requestor advocates a particular conclusion, the request must include a statement of controlling (*i.e.*, Arizona) legal authorities contrary to the taxpayer's views. If the requestor determines that there are no authorities contrary to his or her views or is unable to locate such authorities, the request must contain a statement to that effect. To the extent possible, the statement should be provided in both hard-copy and electronic formats, as explained above.
9. A statement of proposed deletions that assists the Department in deleting private and confidential information from a ruling before it is available for public inspection. The requestor should submit the statement of proposed deletions in a separate document that accompanies the request for a PTR or TIR.

In the statement of proposed deletions, the requestor must either propose specific deletions or state that no information other than names, addresses, and taxpayer identification numbers need be deleted. The Department

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encourages requestors to submit proposed deletions by indicating them with brackets or strikethroughs on a copy of the request for a PTR or TIR and supporting documents.

For the purposes of efficiency, requestors must submit statements of proposed deletions regardless of whether they also submit requests for the Department to withhold publication of their PTRs or TIRs. *Submitting the statements will not impact the Director's determination of whether to withhold publication of the rulings.*

10. If the requestors opts to request that the PTR or TIR be unpublished after issuance, a statement requesting the Department to withhold publication of the ruling. The request must state with specificity the taxpayer's concerns about confidentiality or other reasons why the Department should withhold publication.

Confidentiality

While the text of PTRs and TIRs as originally issued will include the name and address of the person requesting the ruling, the Department redacts certain identifying information from the versions of these PTRs and TIRs that become open to public inspection under A.R.S. § 42-2101(I) (see Appendix A of this procedure for the full text of A.R.S. § 42-2101). The Department performs such deletions to protect the confidentiality of the taxpayer and other parties to the transaction and to satisfy the confidentiality requirements of A.R.S. Title 42, Chapter 2, Article 1. All PTRs and TIRs, however, include relevant facts provided in the request for the rulings.

The Department will rely on the statement of proposed deletions provided by the taxpayer to fulfill its obligations to protect the taxpayer's confidentiality under A.R.S. Title 42, Chapter 2, Article 1.

A taxpayer may notify the Department that it waives its confidentiality rights under A.R.S. Title 42, Chapter 2, Article 1. The taxpayer must submit such notification in writing and must delineate whether all rights are waived or if specific confidentiality rights are waived.

When the Department issues a PTR or TIR, a redacted copy of the ruling will be provided to the requestor. The copy will indicate which deletions will be made in the version of the ruling that is made available for public inspection. If the taxpayer wants additional material to be deleted from the text of the ruling before it is made available to the public, the taxpayer must submit the additional proposed deletions within 20 days of the date the ruling was issued, to provide the Department with sufficient time to review and approve additional deletions as needed.

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Publication of a PTR or TIR

As stated above, for the Department to consider withholding a PTR or TIR from publication, requestors must include written requests for the ruling to not be published after issuance with their original PTR or TIR ruling requests. If the Director determines that a PTR or TIR should not be published, the ruling will be deemed confidential for the purposes of A.R.S. § 39-121.01(D)(2). If the Director determines that the ruling should be published, the taxpayer may withdraw its request for a PTR or TIR within 30 days or as otherwise specified in the Department's written notice of the Director's determination. The Director's determination on publication is not an appealable agency action under A.R.S. § 41-1092 and is not subject to appeal by the taxpayer.

If the Department is to publish a PTR or TIR, it will notify the taxpayer or taxpayer representative of its proposed publication date when it issues the PTR or TIR.

Who Can Request a PTR or TIR on Behalf of a Taxpayer

In addition to the requirements for a PTR or TIR request explained above, there are certain limitations on who can submit such a request on behalf of a taxpayer. In April 2005, the State Bar of Arizona issued an Unauthorized Practice of Law Advisory Opinion (UPL 05-01) (see Appendix C of this procedure for the full text of UPL 05-01), which concluded that “[t]he preparation of a request to the Arizona Department of Revenue for a private taxpayer ruling or an information letter on behalf of another person clearly constitutes the practice of law, as defined in Arizona Supreme Court Rule 31(a)2.A” (see Appendix B of this procedure for the full text of Ariz. S. Ct. Rule 31). Nevertheless, UPL 05-01 explains that Ariz. S. Ct. Rule 31(d)(13)* provides specific exemptions to “certified public accountants and other federally authorized tax practitioners to represent a taxpayer before . . . [ADOR].”

In UPL 05-01, the State Bar cited to Treasury Department Circular No. 230 Rev., Part 10 – Practice before the Internal Revenue Service, to define what persons constitute federally authorized tax practitioners:

- a. Attorneys who are members in good standing of the bar of the highest court of any State, territory, or possession of the United States, including a Commonwealth, or the District of Columbia, and who are not currently under suspension or disbarment from practice before the Internal Revenue Service;
- b. Certified public accountants who are duly qualified to practice as a certified public accountant in any State, territory, or possession of the United States, including a Commonwealth, or the District of Columbia, and who are not

* Effective December 1, 2005, subsection (c) of Arizona Supreme Court Rule 31 as referenced in UPL 05-01 has been renumbered as subsection (d).

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currently under suspension or disbarment from practice before the Internal Revenue Service; and

- c. Enrolled agents who have qualified to practice before the Internal Revenue Service ("IRS") in compliance with the requirements of Circular 230 and who are not currently under suspension or disbarment from practice before the Internal Revenue Service.

In addition to these three categories of qualified requesters, Ariz. S. Ct. Rule 31(d)(13) provides an additional exemption that allows any taxpayer to be represented by:

- d. Federally authorized tax practitioners, as defined in A.R.S. § 42-2069(D)(1).

Ariz. S. Ct. Rule 31(d)(13) also allows a legal entity, including a government entity, to be represented by:

- e. A full-time officer, partner, member or manager of a limited liability company, or employee, provided that: the legal entity has specifically authorized such person to represent it in the particular matter; such representation is not the person's primary duty to the legal entity, but secondary or incidental to other duties relating to the management or operation of the legal entity; and the person is not receiving separate or additional compensation (other than reimbursement for costs) for such representation.

Based on the above interpretations of applicable law, the Department allows representatives who fall into any one of the five categories of persons enumerated in this section to submit a request for a PTR or TIR on behalf of a taxpayer. For TIR requests, taxpayer representatives must still submit identifying information that evidences their authority to act on behalf of taxpayers, including individual identification numbers unique to the representatives.

Although taxpayer representatives would not submit proof of their authorization to submit requests for TIRs on behalf of clients at the time they submit the requests, they must provide such proof (e.g., using an Arizona Form 285) if their clients later wish for the rulings to be binding. As explained above in Requirement 1b of this section, if the information is not provided within the appropriate timeframe, the TIR is not binding on the Department for the purpose of abating interest, penalty or tax.

WHERE TO SEND A REQUEST FOR A PTR OR TIR:

A request for a PTR or TIR must be sent by mail to:

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Arizona Department of Revenue
Tax Research & Analysis
1600 West Monroe
Phoenix, AZ 85007-2650

Please include copies of the request and accompanying documents in electronic format whenever practicable in addition to hard copies. Electronic copies should be stored on recordable CD (CD-R) or rewritable CD (CD-RW) optical storage media, or on 3½-inch, PC-formatted floppy diskettes.

As an alternative to sending electronic documents by mail on recordable media, a requestor may choose to submit electronic copies by email to the appropriate Tax Research and Analysis Section analyst after the analyst has received the hard copy of the request. The Department takes reasonable steps such as maintaining secure servers to ensure that the taxpayer's communications will reach the intended recipient and will be kept confidential. Nevertheless, the Department cannot guarantee unauthorized interception or misuse of electronic communications and shall not be held responsible in the event of such unauthorized use.

Regardless of the method by which the Department receives electronic documents, a requestor must send hard copies of all documents requiring signature by mail.

The Department will acknowledge receipt of all requests for PTRs and TIRs. If a request does not comply with the requirements of A.R.S. § 42-2101 and this procedure, the Department will inform the requestor in writing of which additional requirements must be met.

Requestors may obtain information regarding the status of their PTR or TIR requests by contacting the analyst whose name and telephone number are shown on the letter acknowledging receipt of the requests.

The Department will attempt to issue PTRs and TIRs within 45 days after receiving the written request and on receiving the facts that are relevant to the ruling. Although a requestor who needs a request processed in an expeditious manner may request special handling in a ruling request by explaining the need for the special handling and the time frame in which it would like a PTR or TIR to be issued, the Department cannot guarantee that a ruling can be processed by the time requested. Accordingly, requestors are encouraged to submit their requests well in advance of prospective transactions at issue in their requests.

WITHDRAWAL OF PTR OR TIR REQUEST:

A requestor may withdraw a request for a PTR or TIR within 2 weeks of the date of the

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letter acknowledging receipt of the request. To expedite the initial PTR or TIR request, the requestor may include a waiver of the option to withdraw in the request. If a request is withdrawn, all correspondence and exhibits will be retained by the Department.

CONFERENCES:

Conferences may be held at the Department's discretion to discuss the issues involved in a request for a PTR or TIR. The requestor may request a conference with the Department either verbally or in writing.

AREAS IN WHICH THE DEPARTMENT WILL NOT ISSUE A PTR OR TIR:

There are certain subject areas and circumstances under which the Department ordinarily will not issue PTRs or TIRs. Additionally, the Department may decline to issue a ruling because of the factual nature of the problem involved or for other reasons. When the Department declines to issue a ruling, it may issue an information letter or statement of general guidance to the taxpayer. (For additional information on information letters and statements of general guidance, see *Arizona General Tax Ruling* GTR 08-__.)

Generally, the Department will not issue a PTR or TIR if:

1. The request for a PTR is missing the taxpayer's name or taxpayer identification number.
2. The question involves an issue that is the subject of an existing audit, review, appeal, protest, or refund claim with respect to the taxpayer requesting the ruling. The Department will not decline to issue a ruling if the taxpayer submitted the request in the course of pursuing or entering into a voluntary disclosure agreement.
3. The question involves an issue that is currently being litigated in court or is on appeal.
4. The request involves an area in which the IRS has announced that it will not issue advance rulings. This includes a request that involves alternative plans of proposed transactions or hypothetical situations.
5. The person requesting a PTR is a professional preparer or representative acting on behalf of a taxpayer and has not provided an individual identification number for the preparer or representative or proof that the person is an authorized agent of the taxpayer (see Requirement 1a in the "PROCEDURE FOR REQUESTING A PRIVATE TAXPAYER RULING" section above).

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6. The person requesting a TIR is a professional preparer or representative acting on behalf of a taxpayer and has not provided an individual identification number for the preparer or representative (see Requirement 1b in the "PROCEDURE FOR REQUESTING A PRIVATE TAXPAYER RULING" section above).
7. The person requesting the PTR or TIR is a professional preparer or representative acting on behalf of a taxpayer and has not provided any legal analysis or conclusion with the request.
8. The person requesting the PTR or TIR is a professional preparer or representative acting on behalf of a taxpayer and has failed to provide any of the following:
 - (a) a statement of controlling legal authorities contrary to the taxpayer's views;
 - (b) a statement that no controlling legal authorities exist that are contrary to the taxpayer's views; or
 - (c) a statement that the professional preparer or representative is unable to locate such controlling legal authorities.
9. The issue concerns an area where state treatment relies on the federal law. In such a case, the federal authority is the appropriate governmental entity from which to request information.
10. The question involves a fact intensive issue, such as whether a unitary business exists, whether a taxable nexus exists, or the value of property on a certain date.
11. The PTR or TIR is requested by an industry, trade association, or similar group on behalf of its members.
12. The request is missing a statement of proposed deletions.

The Department welcomes any request by an organization or an individual for a general ruling or procedure. See GTR 08-__ for more information regarding other documents issued by the Arizona Department of Revenue.

Explanatory Notice

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The purpose of a tax procedure is to provide procedural guidance to the general public and to Department personnel. A tax procedure is a written statement issued by the Department to assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.

DRAFT

APPENDIX A TO ARIZONA GENERAL TAX PROCEDURE GTP 08-__ :
A.R.S. § 42-2101
(Effective September 26, 2008)

§ 42-2101. Private taxpayer rulings; request; revocation or modification; taxpayer information ruling; definitions

- A.** The department may issue private taxpayer rulings to taxpayers and potential taxpayers on request. Each request shall be in writing and shall:
1. State the name, address and, if applicable, taxpayer identifying number of the taxpayer or potential taxpayer who requests the ruling.
 2. Describe all facts that are relevant to the requested ruling.
 3. State whether, to the best knowledge of the taxpayer or potential taxpayer, the issue or related issues are being considered by the department in connection with an active audit, protest or appeal that involves the taxpayer or potential taxpayer and whether the same request has been or is being submitted to another taxing authority for a ruling.
 4. Be signed by the taxpayer or potential taxpayer who makes the request or by an authorized representative of the taxpayer or potential taxpayer.
- B.** A taxpayer ruling request that complies with subsection A, paragraphs 2 and 3 of this section and that is signed by a representative of a taxpayer or potential taxpayer shall be considered a request for a taxpayer information ruling instead of a private taxpayer ruling.
- C.** A private taxpayer ruling or taxpayer information ruling may be revoked or modified by either:
1. A change or clarification in the law that was applicable at the time the ruling was issued, including changes or clarifications caused by legislation, adopted administrative rules and court decisions.
 2. Actual written notice by the department to the last known address of the taxpayer or potential taxpayer of the revocation or modification of the private taxpayer ruling or taxpayer information ruling if the taxpayer identifying information has been disclosed to the department pursuant to subsection E of this section. If taxpayer identifying information has not been disclosed, written notice by the department to the last known address of the taxpayer representative who requested the ruling will constitute notice to the taxpayer or potential taxpayer.
- D.** With respect to the taxpayer or prospective taxpayer to whom the private taxpayer ruling was issued, the revocation or modification of a private taxpayer ruling shall not be applied retroactively to tax periods or tax years before the effective date of the revocation or modification and the department shall not assess any penalty or tax attributable to erroneous advice that it furnished to the taxpayer or potential taxpayer in the private taxpayer ruling if:
1. The taxpayer reasonably relied on the private taxpayer ruling.
 2. The penalty or tax did not result either from a failure by the taxpayer to provide adequate or accurate information or from a change in the information.

Note: The Department provides unofficial copies of the statutory and administrative references herein for the convenience of the reader. The Department has endeavored to accurately reproduce the text using official sources that were current through the date it issued GTP 08-__. Nevertheless, the reader should obtain current and official versions of the documents to ascertain whether the language has been updated, amended, rescinded, or otherwise differs from the text provided in these appendices.

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- E. Subsection D of this section applies to a taxpayer information ruling if the taxpayer or potential taxpayer provides its name, address, identifying number, if applicable and authorization pursuant to section 42-2003, subsection A, paragraph 1 for the representative of the taxpayer or potential taxpayer before the date the department publishes the ruling. The department shall notify the representative of the taxpayer or potential taxpayer of the proposed publication date. If the director has determined that the taxpayer information ruling should not be published pursuant to subsection L of this section, subsection D of this section applies if the taxpayer or potential taxpayer provides the identifying information before the date specified by the department on issuing the taxpayer information ruling to the representative. If the taxpayer or potential taxpayer does not provide the department with the identifying information and representative authorization before the proposed publication date, or for an unpublished ruling, the date specified by the department, the taxpayer information ruling is not binding on the department for the purpose of abating interest, penalty or tax.
- F. A private taxpayer ruling or taxpayer information ruling may not be relied upon, cited or introduced into evidence in any proceeding by a taxpayer other than the taxpayer who has received the private taxpayer ruling.
- G. A taxpayer may apply for an administrative hearing to determine the propriety of a retroactive application of a revoked or modified private taxpayer ruling by filing a written petition with the department pursuant to section 42-1251 within forty-five days after receiving written notice of the department's intent to retroactively apply a revoked or modified private taxpayer ruling. This subsection applies to a taxpayer information ruling if the taxpayer has disclosed the taxpayer's identifying information pursuant to subsection E of this section.
- H. A private taxpayer ruling or taxpayer information ruling constitutes the department's interpretation of the law or rules only as they apply to the taxpayer making, and the particular facts contained in, the request.
- I. A private taxpayer ruling or taxpayer information ruling may be issued only if no tax has accrued with respect to the transactions, events or facts contained in the request. The department may issue a private taxpayer ruling or taxpayer information ruling addressing a taxpayer's ongoing business activities, except that the ruling applies only to transactions that occur or tax liabilities that accrue from and after the date the taxpayer receives the ruling.
- J. The department shall attempt to issue private taxpayer rulings or taxpayer information rulings within forty-five days after receiving the written request and on receiving the facts that are relevant to the ruling. If the ruling is expected to be delayed, the department shall notify the requestor of the delay and the proposed date of issuance.
- K. The department shall maintain the private taxpayer ruling or taxpayer information as a public record and make it available at a reasonable cost for public inspection and copying. The text of private taxpayer or taxpayer information rulings is open to public inspection subject to the confidentiality requirements prescribed by article 1 of this chapter.

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- L.** At the time of making a private taxpayer or taxpayer information ruling request, a taxpayer or potential taxpayer may submit a written request that the ruling not be published due to concerns about confidentiality or other disclosed reasons. If the director determines that the ruling should not be published, the ruling shall be deemed confidential for the purpose of section 39-121.01, subsection D, paragraph 2. If the director determines that the ruling should be published, the taxpayer may withdraw the ruling request, and the department shall not proceed with a ruling if the request is withdrawn. Notwithstanding section 41-1092.02, the decision of the director to publish is not an appealable agency action as defined in section 41-1092 and is not subject to appeal by the taxpayer.
- M.** For the purposes of this section:
1. "Private taxpayer ruling" means a written determination by the department issued on or after September 21, 1991 that interprets and applies one or more statutes contained in this title or title 43 and any applicable administrative rules that the department has adopted to the specific prospective facts described in the request for a private taxpayer ruling.
 2. "Taxpayer information ruling" means a written determination by the department issued on or after the effective date of this amendment to this section that interprets and applies one or more statutes contained in this title or title 43 and any applicable administrative rules that the department has adopted to the specific prospective facts described in a request for a taxpayer information ruling.

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**APPENDIX B TO ARIZONA GENERAL TAX PROCEDURE GTP 08- :
ARIZ. SUP. CT. R. 31**

Arizona Supreme Court Rule 31. Regulation of the Practice of Law

(a) Supreme Court Jurisdiction Over the Practice of Law

1. Jurisdiction. Any person or entity engaged in the practice of law or unauthorized practice of law in this state, as defined by these rules, is subject to this court's jurisdiction.
2. Definitions.
 - A. "Practice of law" means providing legal advice or services to or for another by:
 - (1) preparing any document in any medium intended to affect or secure legal rights for a specific person or entity;
 - (2) preparing or expressing legal opinions;
 - (3) representing another in a judicial, quasi-judicial, or administrative proceeding, or other formal dispute resolution process such as arbitration and mediation;
 - (4) preparing any document through any medium for filing in any court, administrative agency or tribunal for a specific person or entity; or
 - (5) negotiating legal rights or responsibilities for a specific person or entity.
 - B. "Unauthorized practice of law" includes but is not limited to:
 - (1) engaging in the practice of law by persons or entities not authorized to practice pursuant to paragraphs (b) or (c) or specially admitted to practice pursuant to Rule 33(d); or
 - (2) using the designations "lawyer," "attorney at law," "counselor at law," "law," "law office," "J.D.," "Esq.," or other equivalent words by any person or entity who is not authorized to practice law in this state pursuant to paragraphs (b) or (c) or specially admitted to practice pursuant to Rule 33(d), the use of which is reasonably likely to induce others to believe that the person or entity is authorized to engage in the practice of law in this state.
 - C. "Legal assistant/paralegal" means a person qualified by education and training who performs substantive legal work requiring a sufficient knowledge of and expertise in legal concepts and procedures, who is supervised by an active member of the State Bar of Arizona, and for whom an active member of the state bar is responsible, unless otherwise authorized by supreme court rule.
 - D. "Mediator" means an impartial individual who is appointed by a court or government entity or engaged by disputants through written agreement, signed by all disputants, to mediate a dispute.

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- (b) Authority to Practice. Except as hereinafter provided in section (d), no person shall practice law in this state or represent in any way that he or she may practice law in this state unless the person is an active member of the state bar.
- (c) Restrictions on Disbarred Attorneys' and Members' Right to Practice. No member who is currently suspended or on disability inactive status and no former member who has been disbarred shall practice law in this state or represent in any way that he or she may practice law in this state.
- (d) Exemptions. Notwithstanding the provisions of section (b), but subject to the limitations of section (c) unless otherwise stated:
 - 1. In any proceeding before the Department of Economic Security, including a hearing officer, an Appeal Tribunal or the Appeals Board, an individual party (either claimant or opposing party) may be represented by a duly authorized agent who is not charging a fee for the representation; an employer, including a corporate employer, may represent itself through an officer or employee; or a duly authorized agent who is charging a fee may represent any party, providing that an attorney authorized to practice law in the State of Arizona shall be responsible for and supervise such agent.
 - 2. An employee may designate a representative, not necessarily an attorney, before any board hearing or any quasi-judicial hearing dealing with personnel matters, providing that no fee may be charged for any services rendered in connection with such hearing by any such designated representative not an attorney admitted to practice.
 - 3. An officer of a corporation or a managing member of a limited liability company who is not an active member of the state bar may represent such entity before a justice court or police court provided that: the entity has specifically authorized such officer or managing member to represent it before such courts; such representation is not the officer's or managing member's primary duty to the entity, but secondary or incidental to other duties relating to the management or operation of the entity; and the entity was an original party to or a first assignee of a conditional sales contract, conveyance, transaction or occurrence that gave rise to the cause of action in such court, and the assignment was not made for a collection purpose.
 - 4. A person who is not an active member of the state bar may represent a party in small claims procedures in the Arizona Tax Court, as provided in Title 12, Chapter 1, Article 4 of the Arizona Revised Statutes.
 - 5. In any proceeding in matters under Title 23, Chapter 2, Article 10 of the Arizona Revised Statutes, before any administrative law judge of the Industrial Commission of Arizona or review board of the Arizona Division of Occupational Safety and Health or any successor agency, a corporate employer may be represented by an officer or other duly authorized agent of the corporation who is not charging a fee for the representation.

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6. An ambulance service may be represented by a corporate officer or employee who has been specifically authorized by the ambulance service to represent it in an administrative hearing or rehearing before the Arizona Department of Health Services as provided in Title 36, Chapter 21.1, Article 2 of the Arizona Revised Statutes.
7. A person who is not an active member of the state bar may represent a corporation in small claims procedures, so long as such person is a full-time officer or authorized full-time employee of the corporation who is not charging a fee for the representation.
8. In any administrative appeal proceeding of the Department of Health Services, for behavioral health services, pursuant to A.R.S. § 36-3413 (effective July 1, 1995), a party may be represented by a duly authorized agent who is not charging a fee for the representation.
9. An officer or employee of a corporation or unincorporated association who is not an active member of the state bar may represent the corporation or association before the superior court (including proceedings before the master appointed according to A.R.S. § 45-255) in the general stream adjudication proceedings conducted under Arizona Revised Statutes Title 45, Chapter 1, Article 9, provided that: the corporation or association has specifically authorized such officer or employee to represent it in this adjudication; such representation is not the officer's or employee's primary duty to the corporation but secondary or incidental to other duties related to the management or operation of the corporation or association; and the officer or employee is not receiving separate or additional compensation (other than reimbursement for costs) for such representation. Notwithstanding the foregoing provision, the court may require the substitution of counsel whenever it determines that lay representation is interfering with the orderly progress of the litigation or imposing undue burdens on the other litigants. In addition, the court may assess an appropriate sanction against any party or attorney who has engaged in unreasonable, groundless, abusive or obstructionist conduct.
10. An officer or full-time, permanent employee of a corporation who is not an active member of the state bar may represent the corporation before the Arizona Department of Environmental Quality in an administrative proceeding authorized under Arizona Revised Statutes. Title 49, provided that: the corporation has specifically authorized such officer or employee to represent it in the particular administrative hearing; such representation is not the officer's or employee's primary duty to the corporation but secondary or incidental to other duties related to the management or operation of the corporation; the officer or employee is not receiving separate or additional compensation (other than reimbursement for costs) for such representation;

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and the corporation has been provided with a timely and appropriate written general warning relating to the potential effects of the proceeding on the corporation's and its owners' legal rights.

11. Unless otherwise specifically provided for in this rule, in proceedings before the Office of Administrative Hearings, a legal entity may be represented by a full-time officer, partner, member or manager of a limited liability company, or employee, provided that: the legal entity has specifically authorized such person to represent it in the particular matter; such representation is not the person's primary duty to the legal entity, but secondary or incidental to other duties relating to the management or operation of the legal entity; and the person is not receiving separate or additional compensation (other than reimbursement for costs) for such representation.
12. In any administrative appeal proceeding relating to the Arizona Health Care Cost Containment System, an individual may be represented by a duly authorized agent who is not charging a fee for the representation.
13. In any administrative matter before the Arizona Department of Revenue, the Office of Administrative Hearings relating to the Arizona Department of Revenue, a state or county board of equalization, the Arizona Department of Transportation, the Arizona Department of Economic Security, the Arizona Corporation Commission, or any county, city, or town taxing or appeals official, a taxpayer may be represented by (1) a certified public accountant, (2) a federally authorized tax practitioner, as that term is defined in A.R.S. § 42-2069(D)(1), or (3) in matters in which the dispute, including tax, interest and penalties, is less than \$5,000.00 (five thousand dollars), any duly appointed representative. A legal entity, including a governmental entity, may be represented by a full-time officer, partner, member or manager of a limited liability company, or employee, provided that: the legal entity has specifically authorized such person to represent it in the particular matter; such representation is not the person's primary duty to the legal entity, but secondary or incidental to other duties relating to the management or operation of the legal entity; and the person is not receiving separate or additional compensation (other than reimbursement for costs) for such representation.
14. If the amount in any single dispute before the State Board of Tax Appeals is less than twenty-five thousand dollars, a taxpayer may be represented in that dispute before the board by a certified public accountant or by a federally authorized tax practitioner, as that term is defined in A.R.S. § 42-2069(D)(1).
15. Nothing in these rules shall limit a certified public accountant or other federally authorized tax practitioner, as that term is defined in A.R.S. § 42-2069(D)(1), from practicing before the Internal Revenue Service or other federal agencies where so authorized.

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16. Nothing in these rules shall prohibit the rendering of individual and corporate financial and tax advice to clients or the preparation of tax-related documents for filing with governmental agencies by a certified public accountant or other federally authorized tax practitioner as that term is defined in A.R.S. § 42-2069(D)(1).
17. Nothing in this rule shall affect the ability of nonlawyer assistants to act under the supervision of a lawyer in compliance with ER 5.3 of the rules of professional conduct. This exemption is not subject to section (c).
18. Nothing in these rules shall prohibit the supreme court, court of appeals, superior courts, or limited jurisdiction courts in this state from creating and distributing form documents for use in Arizona courts.
19. Nothing in these rules shall prohibit the preparation of documents incidental to a regular course of business when the documents are for the use of the business and not made available to third parties.
20. Nothing in these rules shall prohibit the preparation of tax returns.
21. Nothing in these rules shall affect the rights granted in the Arizona or United States Constitutions.
22. Nothing in these rules shall prohibit an officer or employee of a governmental entity from performing the duties of his or her office or carrying out the regular course of business of the governmental entity.
23. Nothing in these rules shall prohibit a certified legal document preparer from performing services in compliance with Arizona Code of Judicial Administration, Part 7, Chapter 2, Section 7-208. This exemption is not subject to paragraph (c) of this rule, as long as the disbarred attorney or member has been certified as provided in § 7-208 of the Arizona Code of Judicial Administration.
24. Nothing in these rules shall prohibit a mediator as defined in these rules from facilitating a mediation between parties, preparing a written mediation agreement, or filing such agreement with the appropriate court, provided that:
 - (A) the mediator is employed, appointed or referred by a court or government entity and is serving as a mediator at the direction of the court or government entity; or
 - (B) the mediator is participating without compensation in a non-profit mediation program, a community-based organization, or a professional association.

In all other cases, a mediator who is not a member of the state bar and who prepares or provides legal documents for the parties without the supervision of an attorney must be certified as a legal document preparer in compliance with the Arizona Code of judicial Administration, Part 7, Chapter 2, Section 7-208.

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25. Nothing in these rules shall prohibit a property tax agent, as that term is defined in A.R.S. § 32-3651, who is registered with the Arizona State Board of Appraisal pursuant to A.R.S. § 32-3642, from practicing as authorized pursuant to A.R.S. § 42-16001.
26. Nothing in these rules shall affect the ability of lawyers licensed in another jurisdiction to engage in conduct that is permitted under ER 5.5 of the rules of professional conduct.

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**APPENDIX C TO ARIZONA GENERAL TAX PROCEDURE GTP 08- :
UPL 05-01**

UPL ADVISORY OPINION

***UPL 05-01
(April 2005)***

Tax Payer Representative's Requests

This is an Advisory Opinion regarding Rule 31 of the Rules of the Supreme Court of Arizona regarding whether an attorney practicing outside the State of Arizona, who is not a licensed Arizona attorney, or CPA or IRS agent, is engaged in the unauthorized practice of law by submitting a request to the Arizona Department of Revenue for private tax payer ruling or information letter on behalf of an out-of-state client.

Issues:

Is (i) an attorney practicing outside the State of Arizona and not admitted to practice law in Arizona, (ii) a Certified Public Accountant, or (iii) an enrolled agent before the Internal Revenue Service, who submits a request to the Arizona Department of Revenue for a private taxpayer ruling or an information letter on behalf of an out-of-state client engaged in the unauthorized practice of law in Arizona? No, as long as the attorney, CPA, or enrolled agent is not suspended or disbarred from practicing before the United States Internal Revenue Service.

Facts:

The Arizona Department of Revenue (the “**Department**”) may issue a private taxpayer ruling (“**PTR**”) or an information letter (“**IL**”). A PTR interprets and applies Arizona tax laws to a particular set of facts set forth by the taxpayer requesting the ruling, and is issued only to that taxpayer with respect to a specific fact situation. An IL is a letter that responds to a written inquiry from a taxpayer, a taxpayer representative, or a business, trade, or industrial association or similar group. An IL is issued if: (a) the inquiry indicates a need for general information that requires written assistance or advice on tax principles or applications; or (b) the inquiry does not meet the requirements for issuance of a PTR, but the Department determines that written assistance or advisement is appropriate.

A request for a PTR must include: the requesting taxpayer's identifying information; (b) the signature of the requesting taxpayer or the taxpayer representative; (c) if the request is submitted by a representative, proof that the person is an authorized agent of the taxpayer; (d) a detailed description of the facts with respect to which the PTR is sought, including identification of all interested parties; (e) an analysis of the material facts included in any accompanying documents and their bearing on the issues raised in the request; and (f) if

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the taxpayer is advocating a particular conclusion, an explanation of the grounds for the taxpayer's proposed conclusion and the relevant legal authorities in support of the conclusion. Given the nature of an IL, similar requirements are not imposed for the issuance of an IL.

Relevant Authority:

Arizona Supreme Court Rule 31:

Rule 31. Regulation of the Practice of Law

(a) Supreme Court Jurisdiction Over the Practice of Law

1. *Jurisdiction.* Any person or entity engaged in the practice of law or unauthorized practice of law in this state, as defined by these rules, is subject to this court's jurisdiction.

2. *Definitions.*

A. "Practice of law" means providing legal advice or services to or for another by:

- (1) preparing any document in any medium intended to affect or secure legal rights for a specific person or entity;
- (2) preparing or expressing legal opinions;
- (3) representing another in a judicial, quasi-judicial, or administrative proceeding, or other formal dispute resolution process such as arbitration and mediation;
- (4) preparing any document through any medium for filing in any court, administrative agency or tribunal for a specific person or entity; or
- (5) negotiating legal rights or responsibilities for a specific person or entity.

B. "Unauthorized practice of law" includes but is not limited to:

- (1) engaging in the practice of law by persons or entities not authorized to practice pursuant to paragraphs (b) or (c) or specially admitted to practice pursuant to Rule 33(d); or

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(2) using the designations “lawyer,” “attorney at law,” “counselor at law,” “law,” “law office,” “J.D.,” “Esq.,” or other equivalent words by any person or entity who is not authorized to practice law in this state pursuant to paragraphs (b) or (c) or specially admitted to practice pursuant to Rule 33(d), the use of which is reasonably likely to induce others to believe that the person or entity is authorized to engage in the practice of law in this state.

...

(b) Authority to Practice. Except as hereinafter provided in section (c), no person shall practice law in this state or represent in any way that he or she may practice law in this state unless the person is an active member of the state bar, and no member shall practice law in this state or represent in any way that he or she may practice law in this state, while suspended, disbarred, or on disability inactive status.

(c) Exceptions. Notwithstanding the provisions of section (b):

...

13. In any administrative matter before the Arizona Department of Revenue, the Office of Administrative Hearings relating to the Arizona Department of Revenue, a state or county board of equalization, the Arizona Department of Transportation, the Arizona Department of Economic Security, the Arizona Corporation Commission, or any county, city, or town taxing or appeals official, a taxpayer may be represented by (1) a certified public accountant, (2) a federally authorized tax practitioner, as that term is defined in A.R.S. § 42-2069(D)(1), or (3) in matters in which the dispute, including tax, interest, and penalties, is less than \$5,000.00 (five thousand dollars), any duly appointed representative. A legal entity, including a governmental entity, may be represented by a full-time officer, partner, member or manager of a limited liability company, or employee, provided that: the legal entity has specifically authorized such person to represent it in the particular matter; such representation is not the person's primary duty to the legal entity, but secondary or incidental to other duties relating to the management or operation of the legal entity; and the person is not receiving separate or additional compensation (other than reimbursement for costs) for such representation.

...

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Arizona Revised Statutes section 42-2069(D)(1):

1. "Federally authorized tax practitioner" means an individual who is authorized under federal law to practice before the United States internal revenue service if the practice is subject to federal regulation under 31 United States Code § 330. Federally authorized tax practitioner includes any person who is engaged in practice with one or more federally authorized tax practitioners and who is subject to the same standards of practice and ethics requirements as a federally authorized tax practitioner.

31 United States Code section 330:

- (a) Subject to section 500 of title 5, the Secretary of the Treasury may -
 - (1) regulate the practice of representatives of persons before the Department of the Treasury; and
 - (2) before admitting a representative practice, require that the representative demonstrate -
 - (A) good character;
 - (B) good reputation;
 - (C) necessary qualifications to enable the representative to provide the persons valuable service; and
 - (D) competency to advise and assist persons in presenting their cases.
- (b) After notice and opportunity for a proceeding, the Secretary may suspend or disbar from practice before the Department a representative who -
 - (1) is incompetent;
 - (2) is disreputable;
 - (3) violates regulations prescribed under this section; or
 - (4) with intent to defraud, willfully and knowingly misleads or threatens the person being represented or a prospective person to be represented.

...

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Treasury Department Circular No. 230 Rev., Part 10 – Practice before the Internal Revenue Service.

Section 10.0. Scope of Part.

This part contains rules governing the recognition of attorneys, certified public accountants, enrolled agents, and other persons representing taxpayers before the Internal Revenue Service. Subpart A of this part sets forth rules relating to the authority to practice before the Internal Revenue Service

. . .

Section 10.2. Definitions.

As used in this part, except where the text clearly provides otherwise:

(a) *Attorney* means any person who is a member in good standing of the bar of the highest court of any State, territory, or possession of the United States, including a Commonwealth, or the District of Columbia.

(b) *Certified public accountant* means any person who is duly qualified to practice as a certified public accountant in any State, territory, or possession of the United States, including a Commonwealth, or the District of Columbia.

. . .

(e) *Practitioner* means any individual described in paragraphs (a), (b), (c), or (d) of § 10.3.

. . .

Section 10.3. Who may practice.

(a) Attorneys. Any attorney who is not currently under suspension or disbarment from practice before the Internal Revenue Service may practice before the Internal Revenue Service by filing with the Internal Revenue Service a written declaration that he or she is currently qualified as an attorney and is authorized to represent the party or parties on whose behalf he or she acts.

(b) Certified public accountants. Any certified public accountant who is not currently under suspension or disbarment from practice before the Internal Revenue Service may practice before the Internal Revenue Service by filing with the Internal Revenue Service a written declaration that he or she is currently qualified as

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a certified public accountant and is authorized to represent the party or parties on whose behalf he or she acts.

(c) Enrolled agents. Any individual enrolled as an agent pursuant to this part who is not currently under suspension or disbarment from practice before the Internal Revenue Service may practice before the Internal Revenue Service.

...

Discussion:

Is (i) an attorney practicing outside the State of Arizona and not admitted to practice law in Arizona, (ii) a Certified Public Accountant, or (iii) an enrolled agent before the Internal Revenue Service, who submits a request to the Arizona Department of Revenue for a private taxpayer ruling or an information letter on behalf of an out-of-state client engaged in the unauthorized practice of law in Arizona? No, as long as the attorney, CPA, or enrolled agent is not suspended or disbarred from practicing before the United States Internal Revenue Service.

Any inquiry into what legal services may or may not be provided by a person not admitted to practice law in the State of Arizona must begin with reviewing the Arizona Supreme Court's 2003 definition of what is "the practice of law" as set forth in Arizona Supreme Court Rule 31(a)2.A. In brief, "practicing law" in Arizona includes preparing any document through any medium for filing before any administrative agency for a specific person or entity. Only members of the State Bar of Arizona and certain specific categories of non-lawyers are authorized by the Supreme Court to practice law in Arizona.

The preparation of a request to the Arizona Department of Revenue for a private taxpayer ruling or an information letter on behalf of another person clearly constitutes the practice of law, as defined in Arizona Supreme Court Rule 31(a)2.A. However, 26 exemptions from the general restriction of the right to practice law in the State of Arizona to members of the State Bar of Arizona are set forth in Arizona Supreme Court Rule 31(c), including an exemption in paragraph 13 of Rule 31(c) for certified public accountants and other federally authorized tax practitioners to represent a taxpayer before, amongst others, the Arizona Department of Revenue.

Federally authorized tax practitioners are defined in Treasury Department Circular No. 230 Rev., Part 10 – Practice before the Internal Revenue Service, which is promulgated pursuant to the authority granted to the United States Secretary of the Treasury by section 330 of Title 31 of the United States Code, to include:

(a) attorneys who are members in good standing of the bar of the highest court of any State, territory, or possession of the United States, including a Commonwealth, or the

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District of Columbia, and who are not currently under suspension or disbarment from practice before the Internal Revenue Service;

(b) certified public accountants who are duly qualified to practice as a certified public accountant in any State, territory, or possession of the United States, including a Commonwealth, or the District of Columbia, and who are not currently under suspension or disbarment from practice before the Internal Revenue Service; and

(c) enrolled agents who have qualified to practice before the Internal Revenue Service in compliance with the requirements of Circular 230 and who are not currently under suspension or disbarment from practice before the Internal Revenue Service.

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ARIZONA GENERAL TAX PROCEDURE GTP 08-__

Janet Napolitano
Governor

Public Inspection of Private Taxpayer Rulings and Taxpayer Information Rulings

Gale Garriott
Director

(This procedure supersedes and rescinds GTP 07-2)

The Legislature adopted a statutory provision in 1991 authorizing the issuance of private taxpayer rulings ("PTRs") by the Department of Revenue (the "Department") to provide Arizona taxpayers with available knowledge relating to specific tax situations. In 1994, the Legislature amended the statute to provide additional information about PTRs to taxpayers. Effective September 26, 2008, the Legislature again amended A.R.S. § 42-2101 to authorize a second form of specific taxpayer guidance called taxpayer information rulings ("TIRs").

The amended statute provides that PTRs and TIRs that the Director determines should be published pursuant to A.R.S. § 42-2101(L) shall be available for public inspection and copying at a reasonable cost. This procedure provides guidance to the public on the procedure for obtaining copies of PTRs and TIRs issued by the Department.

GENERAL INFORMATION:

Published PTRs issued in response to requests received by the Department after July 17, 1994 and published TIRs issued for requests received after September 26, 2008 are available to the public. The Department will remove information that could identify the taxpayer and any other parties involved in the activity or transaction before copies of PTRs and TIRs are made available to the public.

Both PTRs and TIRs are written statements issued by the Tax Research and Analysis Section of the Department's Tax Policy and Research Division in response to written inquiries by individuals or businesses. They interpret and apply Arizona tax laws to particular sets of facts and circumstances.

Neither a PTR nor TIR can be cited to or relied upon by anyone other than the requesting taxpayer or potential taxpayer, but both rulings may be helpful in understanding the Department's positions on certain issues that are not clearly answered by other available legal authorities.

The statutory definitions for "private taxpayer ruling" and "taxpayer information ruling" do not include the background documents pertaining to either type of ruling. Consequently, copies of background documents are not made available to the public, other than content from such documents recited in the ruling itself.

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(This procedure supersedes and rescinds GTP 07-2)

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See *Arizona General Tax Ruling* GTR 08-__ and *Arizona General Tax Procedure* GTP 08-__ for more information on the issuance of PTRs and TIRs.

COSTS:

Published PTRs and TIRs are available free of charge at the Department's website, www.azdor.gov, with hyperlinks to the text of the rulings indexed by tax type.

The Department also indexes published PTRs and TIRs by the relevant section of the Arizona Revised Statutes. This cumulative index is periodically published by the Department and is available to the public at a cost of \$2.50.

The charge for a hard copy of a published PTR or TIR is \$2.00 per ruling plus \$0.25 per page. This charge defrays the Department's cost of processing the requests and copying documents. The cumulative index provides the cost of each published PTR or TIR. The general public may also obtain the costs for specific published PTRs or TIRs by contacting the Tax Research and Analysis Section at (602) 716-6803.

The Department will transmit copies by fax if a fax number is provided on the request form. An additional \$2.00 service charge is applied for fax service.

PROCEDURE FOR REQUESTING COPIES OF PTRs AND TIRs:

Any person may request copies of published PTRs and TIRs.

Requests for copies must be in writing and must include:

1. The file number of the PTR or TIR and
2. The name, address, and telephone number of the person making the request, and the address to which copies of the requested material should be sent.
3. A check or money order for the appropriate amount made payable to the Arizona Department of Revenue.

A request for a copy of a published PTR or TIR should be sent to:

Arizona Department of Revenue
Tax Research & Analysis
1600 West Monroe
Phoenix, AZ 85007-2650

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Requesters may use the form included with this procedure to order copies of PTRs and TIRs. Copies of the order form are acceptable for use. Requests for copies of PTRs, TIRs, or the index to PTRs and TIRs will not be taken by telephone.

If the request does not include a check or money order for the total amount due or does not include all the information necessary to process the request, the Department will not mail or fax the copies until the person making the request remits payment or the omitted information.

TAXPAYER SERVICES LOBBY:

PTRs, TIRs, and the cumulative index are available for inspection and copies may be purchased in the Taxpayer Services lobby of the Department of Revenue at 1600 W. Monroe, Phoenix, Arizona 85007-2650 or at any of the Department's other offices. The lobby is open from 8:00 a.m. to 5:00 p.m., Monday through Friday (excluding state service holidays).

Explanatory Notice

The purpose of a tax procedure is to provide procedural guidance to the general public and to Department personnel. A tax procedure is a written statement issued by the Department to assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.

STATE OF ARIZONA

Department of Revenue



REQUEST FOR COPIES OF PRIVATE TAXPAYER RULINGS AND TAXPAYER INFORMATION RULINGS

Janet Napolitano
Governor

Gale Garriott
Director

Cost: \$2.00 per ruling plus \$0.25 per page

\$2.50 for the Cumulative Index of Private Taxpayer Rulings and
Taxpayer Information Rulings

Complete the bottom part of this form and mail to:

Tax Research & Analysis
Arizona Department of Revenue
1600 West Monroe
Phoenix, AZ 85007-2650

Make checks payable to: Arizona Department of Revenue

REQUEST FOR COPIES OF PTRs AND TIRs

Name: _____

Company Name: _____

Address: _____

Telephone Number: _____

Fax Number (if faxed copy requested): _____

NO HARD COPIES WILL BE MAILED IF FAX SERVICE IS REQUESTED.

PTR/TIR File Number	Number of Copies	Price
ADD \$2.00 IF FAX SERVICE REQUESTED		
TOTAL AMOUNT ENCLOSED (check or money order)		

draft rev. 2008.09.09



Janet Napolitano
Governor

Gale Garriott
Director

ARIZONA GENERAL TAX RULING GTR 08-__

(This ruling supersedes and rescinds GTR 07-1)

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

ISSUE:

Information concerning written and oral advice provided to taxpayers by the Department of Revenue ("Department").

APPLICABLE LAW:

Arizona Revised Statutes ("A.R.S.") § 42-1004 states:

- A. The department shall administer and enforce the provisions of this title, title 43 and other laws assigned to it and has all the powers and duties prescribed by law for such purposes. In all proceedings prescribed by law the department may act on behalf of this state. In addition, the department shall:
 - 1. Formulate policies, plans and programs to effectuate the missions and purposes of the department.
 -
 - 6. Provide information and advice within the scope of its duties subject to the laws on confidentiality of information and departmental rules adopted pursuant to such laws.

A.R.S. § 42-1123(C) states:

If the tax, whether determined by the department or the taxpayer, or any portion of the tax is not paid on or before the date prescribed for its payment the department shall collect, as a part of the tax, interest on the unpaid amount at the rate determined pursuant to this section from the date prescribed for its payment until it is paid.

A.R.S. § 42-2052 states:

- A. Notwithstanding sections 42-1123 and 42-1125, no interest or penalty may be assessed on an amount assessed as a deficiency if either:

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GTR 07-1

(This ruling supersedes and rescinds GTR 97-1)

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1. The deficiency assessed is directly attributable to erroneous written advice furnished to the taxpayer by an employee of the department acting in an official capacity in response to a specific request from the taxpayer and not from the taxpayer's failure to provide adequate or accurate information.
2. All of the following are true:
 - (a) A tax return form or tax ruling prepared by the department contains a statement that, if followed by a taxpayer, would cause the taxpayer to misapply this title or title 43.
 - (b) The taxpayer reasonably relies on the statement.
 - (c) The taxpayer's underpayment directly results from this reliance.
- B. Each employee of the department, at the time any oral advice is given to any person, shall inform the person that the department is not bound by such oral advice.
- C. For purposes of this section:
 1. "Tax return form" includes the instructions that the department prepares for use with the tax return form whether the form or instructions are provided on paper or by electronic means.
 2. "Tax ruling" means a statement issued by the director and denominated as a tax ruling or a tax procedure.

A.R.S. § 42-2078 states:

- A. Unless expressly authorized by law, the department shall not apply any newly enacted law retroactively or in a manner that will penalize a taxpayer for complying with prior law.
- B. If the department adopts a new interpretation or application of any provision of this title or title 43 or determines that any of those provisions applies to a new or additional category or type of taxpayer, and the change in interpretation or application is not due to a change in the law:
 1. The change in interpretation or application applies prospectively unless it is favorable to taxpayers.
 2. The department shall not assess any tax, penalty or interest retroactively based on the change in interpretation or application.

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GTR 07-1

(This ruling supersedes and rescinds GTR 97-1)

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3. The change is an affirmative defense in any administrative or judicial action for retroactive assessment of tax, interest and penalties to taxable periods before the new interpretation or application was adopted.
- C. Tax liabilities, penalties and interest paid before a new interpretation or application of chapter 5 of this title by the department shall not be refunded unless the taxpayer requesting the refund provides evidence satisfactory to the department that the amounts will be refunded to the person who paid an added charge to cover the tax.
- D. For the purposes of this section, "new interpretation or application" includes policies and procedures adopted by administrative rule, tax ruling, tax procedure or instructions to a tax return.

A.R.S. § 42-2101 (*effective September 26, 2008*) states:

- A. The department may issue private taxpayer rulings to taxpayers and potential taxpayers on request. Each request shall be in writing and shall:
 1. State the name, address and, if applicable, taxpayer identifying number of the taxpayer or potential taxpayer who requests the ruling.
 2. Describe all facts that are relevant to the requested ruling.
 3. State whether, to the best knowledge of the taxpayer or potential taxpayer, the issue or related issues are being considered by the department in connection with an active audit, protest or appeal that involves the taxpayer or potential taxpayer and whether the same request has been or is being submitted to another taxing authority for a ruling.
 4. Be signed by the taxpayer or potential taxpayer who makes the request or by an authorized representative of the taxpayer or potential taxpayer.
- B. A taxpayer ruling request that complies with subsection A, paragraphs 2 and 3 of this section and that is signed by a representative of a taxpayer or potential taxpayer shall be considered a request for a taxpayer information ruling instead of a private taxpayer ruling.

. . . .
- D. With respect to the taxpayer or prospective taxpayer to whom the private taxpayer ruling was issued, the revocation or modification of a private taxpayer ruling shall not be applied retroactively to tax periods or tax years before the effective date of the revocation or modification and the department

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(This ruling supersedes and rescinds GTR 97-1)

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shall not assess any penalty or tax attributable to erroneous advice that it furnished to the taxpayer or potential taxpayer in the private taxpayer ruling if:

1. The taxpayer reasonably relied on the private taxpayer ruling.
 2. The penalty or tax did not result either from a failure by the taxpayer to provide adequate or accurate information or from a change in the information.
- E. Subsection D of this section applies to a taxpayer information ruling if the taxpayer or potential taxpayer provides its name, address, identifying number, if applicable and authorization pursuant to section 42-2003, subsection A, paragraph 1 for the representative of the taxpayer or potential taxpayer before the date the department publishes the ruling. . . . If the taxpayer or potential taxpayer does not provide the department with the identifying information and representative authorization before the proposed publication date, or for an unpublished ruling, the date specified by the department, the taxpayer information ruling is not binding on the department for the purpose of abating interest, penalty or tax.
- F. A private taxpayer ruling or taxpayer information ruling may not be relied upon, cited or introduced into evidence in any proceeding by a taxpayer other than the taxpayer who has received the private taxpayer ruling.
-
- H. A private taxpayer ruling or taxpayer information ruling constitutes the department's interpretation of the law or rules only as they apply to the taxpayer making, and the particular facts contained in, the request.
- I. A private taxpayer ruling or taxpayer information ruling may be issued only if no tax has accrued with respect to the transactions, events or facts contained in the request. The department may issue a private taxpayer ruling or taxpayer information ruling addressing a taxpayer's ongoing business activities, except that the ruling applies only to transactions that occur or tax liabilities that accrue from and after the date the taxpayer receives the ruling.
- M. For the purposes of this section:
1. "Private taxpayer ruling" means a written determination by the department issued on or after September 21, 1991 that interprets and applies one or more statutes contained in this title or title 43 and any applicable administrative rules that the department has adopted to the specific prospective facts described in the request for a private taxpayer ruling.
 2. "Taxpayer information ruling" means a written determination by the department issued on or after the effective date of this amendment to this section that interprets and applies one or more statutes contained in this title

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or title 43 and any applicable administrative rules that the department has adopted to the specific prospective facts described in a request for a taxpayer information ruling.

DISCUSSION:

The statutes governing the administration of Arizona tax laws direct the Department to assist in the compliance of taxpayers by providing them with information and advice. The Department is issuing this ruling as part of its continuing efforts to maintain an open line of communication with the public.

Refer to the Appendix (p. 10) for a matrix summarizing the effects of the types of written and oral advice discussed in this ruling.

RULING:

It is the Department's practice to respond to requests for information from individuals and organizations concerning their statuses for tax purposes and the tax effects of their transactions. The Department provides this guidance in the form of private taxpayer rulings, taxpayer information rulings, tax rulings and tax procedures, information letters, tax information notices and publications, and oral advice.

This ruling explains the manner in which the Department provides information to taxpayers. The various documents issued by the Department are defined along with the reliance that may be placed on each document.

Private Taxpayer Rulings and Taxpayer Information Rulings

A private taxpayer ruling ("PTR," sometimes referred to as a "letter ruling") is a written document responding to a written inquiry by a *named* individual or organization. A taxpayer information ruling ("TIR") is a written document responding to a written inquiry by an *unnamed* individual or organization, submitted on its behalf by a taxpayer representative. Only persons who are taxpayers or potential taxpayers in the transactions raised may request PTRs or TIRs. Both PTRs and TIRs are issued by the Tax Research and Analysis Section of the Department's Tax Policy and Research Division, and the Department will always identify the documents as "private taxpayer rulings" or "taxpayer information rulings" respectively.

Both types of rulings interpret and apply Arizona tax laws to particular sets of facts that are set forth by the requesters and are prospective in nature. Neither ruling type applies to different fact situations of the requesting taxpayer or to other taxpayers. PTRs are issued in response to requests received by the Department after July 17, 1994; TIRs are issued in response to requests received after September 26, 2008. PTRs and TIRs that the Director

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determines are publishable are available for public inspection only after all information that could identify the taxpayer and any other parties involved in the activity is redacted. See *Arizona General Tax Procedure* GTP 08-__ for more information on PTRs, TIRs, and the procedure for requesting them.

Among other reasons listed in GTP 08-__, the Department will not issue PTRs or TIRs on issues that are subjects of existing audits, appeals, or refund claims with respect to taxpayers requesting the rulings; PTRs will not be issued to anonymous or otherwise insufficiently identified requesters. Professional preparers or representatives acting on behalf of taxpayers must provide their names and individual identification numbers, and would be required to submit proof that they are authorized agents of the taxpayers requesting the rulings if they intend to have the rulings be binding on the Department for the purposes of abating tax, penalties, and interest.

If the advice given by the Department in a PTR is found to be erroneous, the Department cannot assess any tax, interest or penalties attributable to the taxpayer following the erroneous advice if the taxpayer provided accurate and adequate information in the request and the taxpayer shows reasonable reliance on the ruling. For a TIR, if the taxpayer and taxpayer representative submit sufficient identifying information as specified in GTP 08-__ in a timely fashion, the Department also would abate tax, interest, or penalties attributable to the taxpayer following the erroneous advice if the taxpayer provided accurate and adequate information in the request and the taxpayer shows reasonable reliance on the ruling.

A taxpayer may rely on a PTR or TIR that the Department has issued to the taxpayer unless there was a misstatement or omission of material facts by the taxpayer or the taxpayer's representative. A taxpayer may not rely on a PTR or TIR issued to another taxpayer.

A taxpayer must submit a request for a PTR or TIR in writing. More information on the procedures for requesting, issuing, and revoking a PTR or TIR is provided in GTP 08-__.

Tax Rulings and Tax Procedures

A tax ruling is a public written statement of the Department's position that interprets Arizona tax laws and applies the law to a specific set of facts or a general category of taxpayers.

A tax procedure is a public written statement issued by the Department to assist taxpayers in the implementation of tax laws, administrative rules, and tax rulings by providing procedures that taxpayers may follow in order to achieve compliance.

No penalties or interest will be assessed on any deficiency due to a statement in a tax ruling or procedure issued by the Department if the taxpayer reasonably relies on the statement and the underpayment of tax results directly from that reliance. See A.R.S.

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§ 42-2052(A)(2). Unless based on a “new interpretation or application” of the tax statutes as defined in A.R.S. § 42-2078, the taxpayer will be liable for any tax that may be assessed.

See *Arizona General Tax Procedure* GTP 96-1 for more information on tax rulings and tax procedures and *Arizona General Tax Procedure* GTP 02-1 for the procedure to request an abatement of tax, interest, or penalties.

Information Letters, Statements of General Guidance, and Other Forms of Correspondence Issued by the Department

An information letter is a letter that responds to a written inquiry from taxpayers, taxpayer representatives, and various business, trade, and industrial associations or similar groups. The Department issues information letters only in response to written requests, never to oral inquiries.

An information letter may be issued if: (a) the taxpayer's inquiry indicates a need for general information that requires written assistance or advice on tax principles or applications; or (b) the taxpayer's request does not meet the requirements for a private taxpayer ruling request but the Department determines that written assistance or advice is appropriate. The Department may offer advice in an information letter by providing a general discussion of tax principles or applications. The discussion may incorporate references to relevant statutes, case law, administrative rules, and tax rulings or tax procedures.

Information letters are not private taxpayer rulings. They do not constitute statements of agency policy that apply, interpret, or prescribe the tax laws administered by the Department. In the event the advice given in an information letter is found to be erroneous, the Department will not assess penalties or interest directly attributable to the erroneous advice in response to a specific request from the taxpayer if the information provided by the taxpayer was adequate and accurate. Nevertheless, the taxpayer will be liable for any tax that may be assessed.

The Department's standard disclaimer for information letters is as follows:

This is an information letter and not a private taxpayer ruling. The advice it contains is solely dependent upon the adequacy and accuracy of the information provided. Therefore, inadequate and/or inaccurate taxpayer information could result in the imposition of additional tax, interest and penalties. Conversely, if the taxpayer information is correct but the Department later determines that this advice is erroneous, any penalties and interest directly attributable to following this advice will be abated.

Although the Department provides oral advice to taxpayers, as discussed below, information letters will not be provided to persons currently under audit. Also, the

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Department cannot issue information letters to anonymous or otherwise insufficiently identified requesters. Moreover, in order to comply with Rule 31 of the Rules of the Arizona Supreme Court (see *Arizona General Tax Procedure* GTP 07-1 for further discussion), the Department generally cannot issue an information letter responding to a request made by a taxpayer's agent or representative that is unaccompanied by a properly executed power of attorney. Instead, the Department may issue a statement of general guidance, which is designed to provide general advisory guidance that may be useful in helping the requester comply with the laws administered by the Department. The specificity of a particular statement of general guidance will depend on a number of factors, such as the specificity of the question presented in a request, whether the questions raised involve fact-intensive issues, and whether the Department has previously taken a position on the issues. Statements of general guidance are not binding on the Department, and the advice contained within is solely dependent upon the adequacy and accuracy of the information provided.

The Department's standard disclaimer for statements of general guidance is as follows:

This is a statement of general guidance. A statement of general guidance does not pertain to a specific identified client. The statement is designed to provide general advisory guidance that may be useful in complying with the laws administered by the Department. Statements of general guidance are not binding on the Department. In addition, the advice it contains is solely dependent upon the adequacy and accuracy of the information provided.

The Department may respond to a request for an information letter with:

- The issuance of an information letter;
- The issuance of a statement of general guidance;
- A request for additional information necessary to complete an information letter; or
- A response declining to answer the request, explaining why the issuance of an information letter is not appropriate, and, if applicable, explaining why a request should be submitted to the Tax Research and Analysis Section for a private taxpayer ruling.

The Department will usually decline to answer an information letter request when it is too fact-intensive to answer with a general discussion or if the Department has no current position on the issues raised in the request.

Note that the Department issues many forms of taxpayer correspondence that constitute neither information letters nor statements of general guidance, as these two categories of responses are described above. Examples include:

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- Collection letters;
- Assessments;
- Audit correspondence, including billings, no-change letters, and refund denials.

Consequently, the Department will always identify information letters and statements of general guidance as such. All correspondence will provide explanations of the level of reliance that taxpayers may reasonably expect to place on them.

Notices and Publications

Notices and publications issued by the Department are general guides to assist taxpayers in becoming familiar with Arizona tax laws. This category of documents includes both online and hard-copy versions of bulletins, brochures, pamphlets, and stuffers issued by the Department, as well as the *Arizona Tax News* publication.

Notices and publications are not intended to address complex issues in detail or to address a taxpayer's specific circumstance. If the information provided in a tax information notice or publication conflicts with Arizona tax laws, the language of the Arizona Revised Statutes and the Arizona Administrative Code will control.

If the information in a notice or publication issued by the Department is shown to be erroneous and a taxpayer shows reasonable reliance on that information, the taxpayer will be liable for any tax or interest which may result from the erroneous advice, but no penalties will be imposed.

Tax Forms and Instructions

Tax forms and instructions include the various tax return forms and instructions prescribed by the Department for the filing of tax information. If the information provided in the instructions to a tax return conflicts with Arizona tax laws, the language of the Arizona Revised Statutes and the Arizona Administrative Code will control.

No penalties or interest will be assessed on any deficiency due to a statement on a tax return form prepared by the Department if the taxpayer reasonably relies on the statement and the underpayment of tax results directly from that reliance. Nevertheless, the taxpayer will be liable for any tax that may be assessed, unless based on a "new interpretation or application" of the tax statutes as defined in A.R.S. § 42-2078. Also, if a taxpayer is issued a proposed assessment and fails to pay once the liability is found due and owing, interest begins to accrue from the date of the final assessment.

See *Arizona General Tax Procedure* GTP 96-2 for more information on tax forms and instructions.

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Oral Advice

Taxpayers often request oral advice from employees of the Department. The Department does not issue private taxpayer rulings, information letters, or statements of general guidance in response to oral requests. In addition, the Department does not issue oral rulings. Nevertheless, employees of the Department will ordinarily discuss issues relating to a particular tax situation with taxpayers or their representatives.

By statute, oral advice is not binding on the Department. In the event oral advice provided to a taxpayer is found to be erroneous, the taxpayer will be liable for any tax and interest and also may be liable for any associated penalties which are attributable to the taxpayer following the erroneous advice.

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Appendix: Matrix of Written and Oral Advice Provided by the Department

<i>Category of Advice</i>	If found erroneous:		
	Will <i>tax</i> be assessed?	Will <i>interest</i> be assessed?	Will <i>penalties</i> be assessed?
Private taxpayer ruling	No, if a taxpayer provides accurate and adequate information in the request and shows reasonable reliance on the ruling.	No, if a taxpayer provides accurate and adequate information in the request and shows reasonable reliance on the ruling.	No, if a taxpayer provides accurate and adequate information in the request and shows reasonable reliance on the ruling.
Taxpayer information ruling	No, if a taxpayer meets both elements required for a PTR (<i>above</i>) and provides its identifying information and taxpayer representative authorization before the date the Department publishes the TIR, as specified upon issuance of the ruling.	No, if a taxpayer meets both elements required for a PTR (<i>above</i>) and provides its identifying information and taxpayer representative authorization before the date the Department publishes the TIR, as specified upon issuance of the ruling.	No, if a taxpayer meets both elements required for a PTR (<i>above</i>) and provides its identifying information and taxpayer representative authorization before the date the Department publishes the TIR, as specified upon issuance of the ruling.
Tax ruling or procedure	Yes, unless based on a "new interpretation or application" as defined in A.R.S. § 42-2078.	No, if a taxpayer reasonably relies and underpayment of tax results directly from the reliance.	No, if a taxpayer reasonably relies and underpayment of tax results directly from the reliance.
Information letter	Yes.	No, if a taxpayer provides accurate and adequate information and underpayment of tax is directly attributable to the erroneous advice.	No, if a taxpayer provides accurate and adequate information and underpayment of tax is directly attributable to the erroneous advice.
Statement of general guidance	Yes.	Yes.	Yes.
Notice or publication	Yes.	Yes.	No, if a taxpayer shows reasonable reliance on the information.
Tax forms and instructions	Yes, unless based on a "new interpretation or application" as defined in A.R.S. § 42-2078.	No, if a taxpayer reasonably relies and underpayment of tax results directly from the reliance.	No, if a taxpayer reasonably relies and underpayment of tax results directly from the reliance.
Oral advice	Yes.	Yes.	Yes.